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BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH


IN THE MATTER OF THE APPLICATION OF
RAY WATER COMPANY, INC. FOR A RATE
INCREASE.

DOCKET NO. W-01380A-12-0254

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby provides notice of filing the Surrebuttal Testimony of Staff witnesses Crystal S. Brown and Dorothy M. Hains in the above-referenced matter.

RESPECTFULLY SUBMITTED this 8th day of January, 2013.

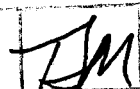


Scott M. Hesla, Staff Attorney
Robin R. Mitchell, Staff Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Arizona Corporation Commission

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3 Steve Wene, Esq.
4 MOYES SELLERS & HENDRICKS
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004

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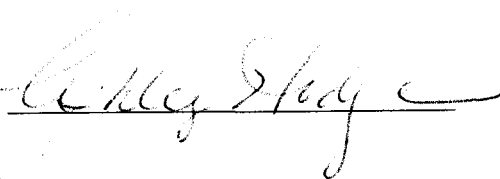
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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER-SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. W-01380A-12-0254
RAY WATER COMPANY, INC. FOR)	
APPROVAL OF A PERMANENT RATE)	
INCREASE.)	
_____)	

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 8, 2013

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**EXECUTIVE SUMMARY
RAY WATER COMPANY, INC.
DOCKET NO. W-01380A-12-0254**

Staff recommends a revenue increase of \$153,226 or 26.38 percent increase over test year revenue of \$580,814. The total annual revenue of \$734,040 produces an operating income of \$57,308 or a 9.50 percent rate of return on an original cost rate base of \$603,241. Staff's surrebuttal testimony responds to Ray Water Company ("Ray Water" or "Company") rebuttal testimony on the following issues:

1. Rate Base
 - a. Excess Capacity Plant
 - b. Not Used and Useful Plant
 - c. Allocated Vehicle Cost
 - d. Advances in Aid of Construction ("AIAC")
2. Operating Income
 - a. Rents Expense
 - b. Transportation Expense
 - c. Depreciation Expense
 - d. Property Taxes
 - e. Income Taxes
3. Rate Design

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Crystal S. Brown who filed direct testimony in this case?

A. Yes.

PURPOSE OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Ms. Sonn Rowell who represents Ray Water Company ("Ray Water" or "the Company").

Q. What issues will you address?

A. I will address the issues listed below that are discussed in the rebuttal testimony of the Company's witness Ms. Sonn Rowell.

1. Rate Base

- a. Excess Capacity Plant
- b. Not Used and Useful Plant
- c. Allocated Vehicle Cost
- d. Advances in Aid of Construction ("AIAC")

2. Operating Income

- a. Rents Expense
- b. Transportation Expense
- c. Depreciation Expense
- d. Property Taxes
- e. Income Taxes

1 **Q. Does your silence on any particular issue raised in the Company's rebuttal testimony**
2 **indicate that Staff agrees with the Company's stated rebuttal position?**

3 A. No. Rather, where I do not respond, I am continuing to rely on my direct testimony.
4

5 **SUMMARY OF PROPOSED REVENUES**

6 **Q. Please summarize Staff's recommended revenue.**

7 A. Staff recommends a revenue increase of \$153,226 or 26.38 percent increase over test year
8 revenue of \$580,814. The total annual revenue of \$734,040 produces an operating income
9 of \$57,308 or a 9.50 percent rate of return on an original cost rate base of \$603,241.
10

11 **Q. Has the weighted average cost of capital ("WACC") used to develop the revenue**
12 **requirement in Staff's direct testimony changed from the WACC in Staff's**
13 **surrebuttal testimony?**

14 A. Yes. In my direct testimony filed on November 26, 2012, Staff used an 8.70 percent
15 WACC. Staff later updated the WACC to 9.30 percent as discussed in the direct
16 testimony of Staff witness, John Cassidy, filed on December 19, 2012. Staff has since
17 updated the WACC to 9.50 percent.
18

19 **Q. How does Staff's recommended revenue compare to the recommended revenue in**
20 **Staff's direct testimony?**

21 A. Staff's recommended revenue has decreased by \$15,106, from \$749,146 in its direct
22 testimony to \$734,040 in its surrebuttal testimony due to various adjustments discussed
23 herein.
24

RATE BASE

Q. Please summarize Staff's adjustments to Ray Water's rate base shown on Surrebuttal Schedule CSB-3.

A. A summary of the Company's proposed and Staff's recommended rate base follows:

TEST YEAR RATE BASE		
Per Company -		Per Staff -
<u>Direct</u>	<u>Difference</u>	<u>Surrebuttal</u>
\$1,073,266	(\$470,025)	\$603,241

Q. How does Staff's recommended rate base compare to the recommended rate base in Staff's direct testimony?

A. Staff recommended rate base rate base has decreased by \$7,681, from \$610,922 in its direct testimony to \$603,241.

PLANT IN SERVICE

Rate Base Adjustment No. 1 – Excess Capacity Plant

Q. Did Staff review the Company's rebuttal testimony regarding excess capacity plant?

A. Yes.

Q. Does Staff agree with the Company?

A. No. Staff witness, Dorothy Hains, will discuss the issue in greater detail in her surrebuttal testimony.

Q. What is Staff's recommendation for the excess capacity plant?

A. Staff continues to recommend the removal of \$459,450 in excess capacity plant composed of \$36,000 for land and land rights; \$268,821 for wells; and \$154,629 for pumping equipment.

1 **Q. How does Staff's recommendation for excess capacity plant compare to the**
2 **recommendation for excess capacity plant in Staff's direct testimony?**

3 A. Staff's recommendation for excess capacity plant is the same as the recommendation
4 made in its direct testimony.
5

6 **Rate Base Adjustment No. 2 – Not Used and Useful Plant**

7 **Q. Did Staff review Ray Water's rebuttal testimony concerning not used and useful**
8 **plant?**

9 A. Yes.
10

11 **Q. Does Staff agree?**

12 A. No. Staff witness, Dorothy Hains, will discuss the issue in greater detail in her surrebuttal
13 testimony.
14

15 **Q. What is Staff's recommendation for not used and useful plant?**

16 A. Staff continues to recommend the removal of \$33,853 in not used and useful plant
17 composed of \$1,021 for land and land rights; \$17,028 for wells; and \$15,804 for pumping
18 equipment.
19

20 **Q. How does Staff's recommendation for not used and useful plant compare to the**
21 **recommendation for not used and useful plant in Staff's direct testimony?**

22 A. Staff's recommendation for not used and useful plant is the same as the recommendation
23 made in its direct testimony.
24

Rate Base Adjustment No. 4 – Allocated Vehicle Cost

Q. Did Staff review the Company's rebuttal testimony concerning allocated vehicle cost?

A. Yes.

Q. What were the Company's primary concerns?

A. The Company's primary concerns were that (1) the cost of the Lexus SUV was \$27,000 rather than \$40,000 and (2) that the allocation of the Lexus SUV to the owner should be 50 percent rather than 75 percent.

Q. Does Staff agree with the Company that the cost of the Lexus SUV is \$27,000?

A. Yes, and Staff has changed its calculations accordingly as shown on Surrebuttal Schedule CSB-8.

Q. Does Staff agree with the Company that the allocation of the cost of the Lexus SUV to the owner should be 50 percent rather than 75 percent?

A. No. The Company provided no evidence to substantiate a 50 percent allocation to the owner. Staff's 75 percent allocation to the owner was based on the fact that (1) the Lexus SUV is not used for meter reading, billing, or making bank deposits; (2) recognition that Mrs. Rosenbaum's job duties do not necessitate a high amount of travel; (3) there is a real estate business that conducts business out of the Ray Water Company's office (4) the vehicle is used for personal business and (5) no travel logs are maintained.

Q. What is the importance of maintaining travel logs?

A. Travel logs track the miles that employees *actually* spend traveling on behalf of the Company versus personal use. Since the logs are completed contemporaneously with the travel, the information helps to prevent the recorded mileage from being over or under

1 stated. Further, one of the principles of the National Association of Regulatory
2 Commissioners ("NARUC") Guidelines for Cost Allocations for Affiliate Transactions is
3 that costs should be collected and classified on a direct basis (i.e. costs which can be
4 specifically identified to the Company). The actual mileage recorded in the logs for Ray
5 Water would also provide an adequate basis in which to allocate expenses between
6 personal and business use.

7
8 **Q. Does the Internal Revenue Service ("IRS") require mileage logs in order to deduct**
9 **transportation expense for income tax purposes?**

10 A. Yes, the 2011 IRS Publication 463 "Travel, Entertainment, Gift, and Car Expenses"
11 explains that mileage logs are necessary. Further, it provides examples of the types of
12 information to be recorded such as odometer readings and the purpose of the trip. The
13 Publication also warns on page 26 that you cannot deduct amounts that are approximated
14 or estimated. Since Ray Water does not maintain the appropriate information on mileage
15 logs, none of Ray Water's transportation expense would be an allowable income tax
16 deduction under IRS rules.

17
18 **Q. Is it appropriate to disallow all of Ray Water's transportation cost for ratemaking**
19 **purposes because the Company did not maintain travel logs?**

20 A. No, it is not. Staff recognizes that Mrs. Rosenbaum may occasionally need to use this
21 vehicle to conduct business on behalf of Ray Water.

22
23 **Q. What is Staff's recommendation for the transportation plant account balance?**

24 A. Staff recommends a transportation plant account balance of \$51,985 as shown on
25 Surrebuttal Schedule CSB-8.

26

1 **Q. How does Staff's recommended transportation plant account balance compare to the**
2 **recommended transportation plant account balance in Staff's direct testimony?**

3 A. Staff's recommended transportation plant account balance has increased by \$9,833, from
4 \$42,152 in its direct testimony to \$51,985 in its surrebuttal testimony.

5
6 **Q. Does Staff have any other recommendations concerning transportation costs?**

7 A. Yes, as stated in Staff's direct testimony, Staff further recommends that the Company
8 maintain mileage logs in order to support recovery of a reasonable level of transportation
9 costs in any future rate case.

10
11 **Rate Base Adjustment No. 5 – Accumulated Depreciation**

12 **Q. Did Staff review the Company's rebuttal testimony concerning accumulated**
13 **depreciation?**

14 A. Yes.

15
16 **Q. What were the Company's primary concerns?**

17 A. The Company disagreed with Staff's plant adjustments made for excess capacity plant and
18 not used and useful plant and, accordingly, disagreed with the accumulated depreciation
19 adjustments related to those plant items. The Company also raised a concern that Staff
20 should have used a five percent rather than a 20 percent depreciation rate to calculate the
21 accumulated depreciation adjustment for transportation plant.

22
23 **Q. Does Staff agree with the Company concerning the accumulated depreciation**
24 **adjustment made for excess capacity and not used and useful plant?**

25 A. No. Consistent with Staff's recommendation to remove the excess capacity and not used
26 and useful plant, Staff continues to recommend its adjustment to remove the accumulated
27 depreciation related to those plant items.

1 **Q. Does Staff agree with the Company concerning the depreciation rate used to**
2 **calculate its accumulated depreciation adjustment for transportation plant?**

3 A. Yes, the Company's current Commission approved depreciation rate for transportation
4 plant is five percent. Staff has corrected its calculations as shown on Surrebuttal Schedule
5 CSB-9.

6
7 **Q. What is Staff's recommendation for accumulated depreciation?**

8 A. Staff recommends an accumulated depreciation balance of \$1,811,097 as shown on
9 Surrebuttal Schedules CSB-4 and CSB-9.

10
11 **Q. How does Staff's recommended accumulated depreciation balance compare to the**
12 **recommended accumulated depreciation balance in Staff's direct testimony?**

13 A. Staff's recommended accumulated depreciation balance has increased by \$17,514 from
14 \$1,793,583 in its direct testimony to \$1,811,097 in its surrebuttal testimony.

15
16 **Rate Base Adjustment No. 3 – Advances In Aid of Construction ("AIAC")**

17 **Q. Did Staff review the Company's rebuttal testimony concerning AIAC?**

18 A. Yes.

19
20 **Q. What was the Company's primary concern?**

21 A. The Company was concerned about Staff's transference of AIAC contract costs that were
22 not fully refunded after 10 years to CIAC. The Company stated that "Certain line
23 extension agreements provide for a 15 or 20 year repayment period, thus arbitrarily
24 transferring amounts to CIAC after 10 years may not always be correct"¹.
25

¹ Rowell Rebuttal, page 4, line 16.

1 **Q. Did Staff request the related AIAC contracts through a formal data request?**

2 A. Yes, Staff requested the AIAC contracts in data request CSB 2-11.

3
4 **Q. What was the Company's response?**

5 A. The Company provided a schedule of AIAC contracts but did not provide the contracts.

6
7 **Q. Did Staff search the Commission's records in an attempt to locate the AIAC**
8 **contracts?**

9 A. Yes. However, Staff was unable to locate them. On October 18, 2012, Staff sent an email
10 informing the Company of such and again requested the AIAC contracts as follows:

11
12 In your response to CSB 2-11, you provided an exhibit. Staff has
13 attempted to review the AIAC contracts in support of the \$246,638
14 balance shown for the year 2000. Staff has checked with the State
15 of Arizona's Records Retention section and found that we no longer
16 have copies of the related AIAC contracts. Please make available
17 the AIAC contracts if you still have them.

18
19 **Q. As part of Staff's on-site audit, did Staff discuss this request with the Company?**

20 A. Yes, Mrs. Rosenbaum stated that the Company did not have the AIAC contracts in
21 question.

22
23 **Q. Is the Company required to maintain the AIAC contracts?**

24 A. Yes, the Arizona Administrative Code R14-2-411 (D) (1) states the following:

25
26 Each utility shall keep general and auxiliary accounting records
27 reflecting the cost of its properties, operating income and expense,
28 assets and liabilities, and all other accounting and statistical data
29 necessary to give *complete and authentic information as to its*
30 *properties and operations* (emphasis added).
31

1 **Q. For ratemaking purposes, what guidance does Staff use to determine the repayment**
2 **period when actual contracts no longer exist?**

3 A. Staff uses the Arizona Administrative Code.
4

5 **Q. What does the Arizona Administrative Code state concerning the repayment period**
6 **for AIAC contracts?**

7 A. The Arizona Administrative Code R14-2-406 (D) states the following:
8

9 Refunds of advances made pursuant to this rule shall be made in
10 accord with the following method: the Company shall each year pay
11 to the party making an advance under a main extension agreement .
12 . . . a minimum amount equal to 10% of the total gross annual
13 revenue from water sales to each bona fide consumer whose service
14 line is connected to main lines covered by the main extension
15 agreement, *for a period of not less than 10 years . . . A balance*
16 *remaining at the end of the ten-year period set out shall become*
17 *non-refundable, in which case the balance not refunded shall be*
18 *entered as a contribution in aid of construction in the accounts of*
19 *the Company . . .* (emphasis added).
20

21 **Q. What is the effect on customers when AIAC is not properly transferred to CIAC?**

22 A. Depreciation expense and rate base would be over-stated, thus customers would be
23 harmed by paying artificially higher rates.
24

25 **Q. What is Staff's recommendation for AIAC?**

26 A. Staff continues to recommend an AIAC balance of \$1,474,900.
27

28 **Q. How does Staff's recommended AIAC balance compare to the recommended AIAC**
29 **balance in Staff's direct testimony?**

30 A. Staff's recommended AIAC balance is the same as the AIAC balance recommended in its
31 direct testimony.

OPERATING INCOME

Operating Income Adjustment No. 6 – Rents Expense

Q. Did Staff review the Company's rebuttal testimony concerning rents expense?

A. Yes.

Q. What was the Company's primary concern?

A. The Company's primary concern was that Staff should make no allocation to the unregulated affiliate for ratemaking purposes.

Q. Does Staff agree with the Company's concern?

A. No, Staff does not. The Company's proposal not to allocate any rents expense to the unregulated affiliate is inappropriate because the unregulated affiliate operates from the Ray Water Office.

Q. Please describe the office?

A. The building is approximately 55 years old (CSB 5.9) and appeared to be a residential home that was converted into an office building. It is located near downtown Tucson and is not near to the Ray Water CC&N service area. The owners² also operate R&M Real Estate out of the Ray Water office.

Q. Is the lease agreement a related party transaction?

A. Yes.

Q. Please explain why the lease agreement constitutes a related-party transaction.

A. In general, a related-party transaction refers to a transaction between a company and any other party with which the company may deal where one party has the ability to influence

² Mrs. Rosenbaum and Mrs. Mallis

1 the other to the extent that one party of the transaction may not pursue its own separate
2 best interest. It is not an arm's-length bargaining of parties of opposing interests. The
3 owners lease the office building to Ray Water for \$22,000 per year. The Ray Water
4 leasing agreement is a related-party transaction because the owners of the office building
5 are also the owners of Ray Water.

6
7 **Q. Why do the owners use this particular office building for the Ray Water office?**

8 A. The owner's use this building for the Ray Water Office because they own it.
9 Consequently, the \$22,000 in annual rent revenues the customers pay to the owners for the
10 building rental, which may include profit and overhead, flows to the owners and not to an
11 independent third party. The related party transaction serves to maximize the owners'
12 wealth at the expense of the customers because the owners could lease from an
13 independent third party at a lower cost but choose not to.

14
15 **Q. Is the unregulated affiliate, R&M Real Estate, a "for profit" company?**

16 A. Yes, R&M Real Estate, the unregulated affiliate that leases the office building to Ray
17 Water is a "for profit" company.

18
19 **Q. Is profit included in the \$1,833 per month rent expense that Ray Water pays to the**
20 **owners?**

21 A. Possibly. Staff asked the Company whether or not profit or overhead was included in the
22 \$22,000 amount but the Company refused to answer the question (CSB 5.8).

23
24 **Q. What is one of the primary goals of cost allocation between an unregulated affiliate**
25 **and a regulated affiliate?**

26 A. One of the primary goals is that regulated utilities should not subsidize "for-profit"
27 unregulated businesses through unfair allocations of costs.

1 **Q. What effect does an unfair allocation of costs have on rate payers?**

2 A. When costs incurred for the benefit of an unregulated affiliate's business are improperly
3 identified and allocated, then costs of the unregulated affiliate are shifted to the captive
4 customers of the regulated utility. This cost shifting results in the captive customers of the
5 regulated utility subsidizing the business operations of the unregulated affiliate. This
6 harms customers by creating artificially higher rates.

7
8 **Q. Does the Company's methodology of allocating all shared office space costs solely to**
9 **Ray Water follow the NARUC Guideline for Cost Allocations and Affiliate**
10 **Transactions?**

11 A. No, it does not.
12

13 **Q. Please discuss the NARUC Guideline for Cost Allocations and Affiliate Transactions.**

14 A. One of the principles contained in the Guideline for Cost Allocations and Affiliate
15 Transactions states that:

16
17 The primary cost driver of common costs, or a relevant proxy in the
18 absence of a primary cost driver, should be identified and used to allocate
19 the cost between regulated and non-regulated services or products.
20 (Emphasis added).

21
22 Moreover, the NARUC Guideline for Cost Allocations and Affiliate Transactions states
23 that:

24
25 The indirect costs of each business unit, including the allocated costs of
26 shared services, should be spread to the services or products to which they
27 relate using relevant cost allocators. (Emphasis added).
28

1 **Q. What is Staff's 10 percent allocation recommendation based on?**

2 A. Since the owners utilize mostly the same work areas when they work on R&M Real Estate
3 business as they do when they work on Ray Water business, Staff allocated the rents
4 expense based upon the amount of time the owners spend on R&M business, i.e., 10
5 percent.

6
7 **Q. What is the monthly amount allocated to the unregulated affiliate for rents expense?**

8 A. The amount is \$183 (out of the \$1,833 that Ray Water pays) per month (i.e., \$1,833 x
9 10%).

10

11 **Q. What is Staff's recommendation for rents expense?**

12 A. Staff continues to recommend \$19,800.

13

14 **Q. How does Staff's recommended rents expense compare to the recommended annual
15 rents expense in Staff's direct testimony?**

16 A. Staff's recommended annual rents case expense is the same as the annual rents expense
17 recommended in its direct testimony.

18

19 **Operating Income Adjustment No. 7 – Transportation Expense**

20 **Q. Did Staff review the Company's rebuttal testimony concerning transportation
21 expense?**

22 A. Yes.

23

24 **Q. What were the Company's primary concerns?**

25 A. The Company had two concerns. The first was that the allocation of the Lexus SUV to the
26 unregulated owner should be 50 percent rather than 75 percent. The second was that

Staff's adjustment to normalize certain repair and maintenance items resulted in a transportation expense that was too low.

Q. Does Staff agree with the Company's concern that the allocation of the Lexus SUV to the owner should be 50 percent rather than 75 percent?

A. No, Staff does not. As discussed in Rate Base Adjustment No. 4, "Allocated Vehicle Costs," Staff continues to recommend a 75 percent allocation factor.

Q. Does Staff agree with the Company's concern that Staff's adjustment to normalize certain repair and maintenance items resulted in a transportation expense that was too low?

A. No, Staff does not. Staff's adjustment to normalize certain portions of transportation expense was reasonable and appropriate.

Q. What was the Company's actual transportation expense in the years 2009, 2010, and 2011?

A. The Company's application Schedule E-2 reports the following:

Transportation Expense Schedule E-2		
2009	2010	2011
\$9,465	\$9,120	\$13,316

Q. How does Staff's recommended transportation expense compare to the prior years?

A. The comparison can be seen in the table below:

Transportation Expense Schedule E-2		
2009	2010	2011 (Per Staff)
\$9,465	\$9,120	\$9,206

1 **Q. Is Staff's recommended transportation expense reasonable?**

2 A. Yes, Staff's recommended \$9,206 in transportation expense is reasonable to pay the on-
3 going transportation expense for the Ford truck, Toyota Tundra, and 25 percent of the
4 transportation expense for the Lexus SUV.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff continues to recommend transportation expense of \$9,206, as shown on Surrebuttal
8 Schedules CSB-16 and CSB-23.

9
10 **Q. How does Staff's recommended transportation expense compare to the**
11 **recommended annual transportation expense in Staff's direct testimony?**

12 A. Staff's recommended annual transportation expense is the same as the annual
13 transportation expense recommended in its direct testimony.

14
15 **Operating Income Adjustment No. 8 – Depreciation Expense**

16 **Q. Did Staff review the Company's rebuttal testimony concerning depreciation**
17 **expense?**

18 A. Yes.

19
20 **Q. Did Staff make any changes to its depreciation expense based on the review?**

21 A. Yes. In Staff's direct testimony, Staff inadvertently did not reflect the Company's fully
22 depreciated plant in its depreciation expense calculation. Staff has now made this
23 correction as shown on Surrebuttal Schedule CSB-24.

24
25 **Q. What is Staff's recommendation?**

26 A. Staff recommends depreciation expense of \$129,600, as shown on Surrebuttal Schedules
27 CSB-15 and CSB-24.

1 **Q. How does Staff's recommended depreciation expense compare to the recommended**
2 **depreciation expense in Staff's direct testimony?**

3 A. Staff's recommended depreciation expense has decreased by \$31,373 from \$160,973 in its
4 direct testimony to \$129,600.

5
6 **Operating Income Adjustment No. 10 – Property Taxes**

7 **Q. Did Staff review the Company's rebuttal testimony concerning property tax**
8 **expense?**

9 A. Yes.

10
11 **Q. What was the Company's primary concern?**

12 A. The Company's primary concern was with Staff's use of a 9.8053 percent composite
13 property tax rate.

14
15 **Q. Does Staff accept the Company proposed composite property tax rate of 13.2606**
16 **percent?**

17 A. Yes and Staff has changed its property tax calculation accordingly as shown on
18 Surrebuttal Schedule CSB-26.

19
20 **Q. What is Staff's recommendation?**

21 A. Staff recommends property tax expense of \$32,371, as shown on Surrebuttal Schedules
22 CSB-16 and CSB-26.

23
24 **Q. How does Staff's recommended property tax expense compare to the recommended**
25 **property tax expense in Staff's direct testimony?**

26 A. Staff's recommended property tax expense has increased by \$8,452, from \$23,919 in its
27 direct testimony to \$32,371 in its surrebuttal testimony.

Operating Income Adjustment No. 11 – Income Taxes

Q. Did Staff review the Company's rebuttal testimony concerning income tax expense?

A. Yes.

Q. What was the Company's primary concern?

A. The Company's primary concern was that Staff should not reflect synchronized interest as Staff did not include the plant to which the loan relates in rate base.

Q. Does Staff agree?

A. Yes and Staff has changed its income tax calculation accordingly as shown on Surrebuttal Schedule CSB-27.

Q. What is Staff's recommendation?

A. Staff recommends an income tax loss of \$17,795, as shown on Surrebuttal Schedules CSB-16 and CSB-27.

Q. How does Staff's recommended income tax expense compare to the recommended income tax expense in Staff's direct testimony?

A. Staff's recommended income tax expense has increased by \$9,590, from a negative \$27,385 in its direct testimony to a negative \$17,795 in its surrebuttal testimony.

RATE DESIGN

Q. Has Staff reviewed the Company's rebuttal testimony concerning rate design?

A. Yes.

1 **Q. What are the Company's primary concerns?**

2 A. The Company's primary concerns are that Staff's rate design will cause significant
3 conservation such that the Company will not be able to generate its authorized rate of
4 return and that the Company should be authorized a surcharge mechanism to enable it to
5 recover any difference between its actual and authorized rate of return.
6

7 **Q. Does Staff agree that Staff's rate design will cause significant conservation?**

8 A. No, Staff does not. The Company provided no evidence that Staff's rate design would
9 cause significant conservation. There are many factors that can cause conservation, for
10 example, a change in a household's finances or the number of people per household.
11 Also, changing attitudes about the environment and the economy can impact conservation.
12 Moreover, the federal government has created mandates for more water efficient plumbing
13 fixtures and appliances, such as, but not limited to the Federal Energy Independence and
14 Security Act of 2007 which has prescribed high efficiency standards for dishwashing and
15 clothes washing machines.
16

17 **Q. Does Staff agree with the Company's proposed surcharge mechanism that would**
18 **allow the Company to earn its authorized rate of return?**

19 A. No, Staff does not. Staff typically recommends surcharge mechanisms only for costs or
20 expenses (1) that are a significantly large percentage of a Company's total expenses, (2)
21 that experiences wide fluctuations within a short time frame, and (3) that are out of a
22 Company's control. Examples of such surcharges include purchased power, purchased
23 gas, water hauling, and arsenic remediation. The Company can file an application for a
24 permanent rate increase in accordance with the Commission's rules and regulations should
25 it find that it is not earning its authorized rate of return. Further, the Company can file an
26 emergency rate case should it need immediate rate relief.
27

1 **Q. Has Staff revised its rate design?**

2 A. No, however, we did have to adjust the third tier rate as shown on Surrebuttal Schedule
3 CSB-28.

4
5 **Miscellaneous Service Charges**

6 **Q. Did Staff review the Company's rebuttal testimony concerning a proposed five dollar**
7 **late fee?**

8 A. Yes.

9
10 **Q. Does Staff agree?**

11 A. No. Staff typically recommends a five dollar late fee when the percentage of customers
12 who pay late is significantly large compared to those who do not, such that it would cause
13 a cash flow problem and/or financial hardship to the Company.

14
15 **Q. What is Staff's recommendation concerning the late payment fee?**

16 A. Staff recommends a one and half percent late payment fee.

17
18 **Q. How does Staff's recommended late payment fee compare to the recommended late**
19 **payment fee in Staff's direct testimony?**

20 A. Staff's recommended late payment fee is the same as the late payment fee recommended
21 in its direct testimony.

22
23 **Tariff for Sharing Customer Information**

24 **Q. Is Staff's recommended tariff for sharing customer information attached to your**
25 **surrebuttal testimony?**

26 A. Yes, it is attached as Exhibit A.

27

1 **Q. Did Staff review the Company's rebuttal testimony concerning the tariff?**

2 A. Yes.

3
4 **Q. What was the Company's primary concern?**

5 A. The Company does not believe that the sharing of customer information should be
6 regulated by the Commission.

7
8 **Q. Does Staff agree?**

9 A. No, Staff does not.

10
11 **Q. Has the Commission recently approved a similar tariff for another utility?**

12 A. Yes, the Commission approved a similar tariff for Epcor Water Arizona Inc., in Decision
13 No. 73562, dated October 17, 2012.

14
15 **Q. What is Staff's recommendation concerning the tariff for sharing customer
16 information?**

17 A. Staff continues to recommend approval.

18
19 **Q. How does Staff's recommendation concerning the tariff for sharing customer
20 information compare to the recommendation in Staff's direct testimony?**

21 A. Staff's recommendation concerning the tariff for sharing customer information is the same
22 as that in its direct testimony.

23
24 **Q. Does this conclude Staff's surrebuttal testimony?**

25 A. Yes, it does.

TARIFF

**CUSTOMER WATER CONSUMPTION INFORMATION SHARING WITH
PIMA COUNTY, WASTEWATER PROVIDER**

Ray Water Company, Inc. (“Ray Water” or “Company”) is authorized to share water consumption information of individual customers with Pima County (“the County”), a county provider of wastewater service for common customers purchasing water from Ray Water and wastewater from the County. The purpose of this Tariff, and the authorized provision of customer water consumption information, is to assist the County in billing for wastewater utility service. The County agrees that it is only authorized to use such water consumption information for purposes of wastewater services billing and is not authorized to disclose such information to any other party except as may be required by law.

Ray Water entered into an Agreement with the County for providing individual water consumption data, in a form materially similar to the standard form agreement. The Agreement was subject to Arizona Corporation Commission (“Commission”) review as set forth in Section 5 of the agreement.

Ray Water shall notify all water utility customers affected by the Agreement between the Company and the County pursuant to this Tariff, by means of a billing insert during the first billing cycle immediately after said tariff is approved.

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 1,073,266	\$ 603,241
2	Adjusted Operating Income (Loss)	\$ (125,840)	\$ (57,619)
3	Current Rate of Return (L2 / L1)	-11.72%	-9.55%
4	Required Rate of Return	10.57%	9.50%
5	Required Operating Income (L4 * L1)	\$ 113,393	\$ 57,308
6	Operating Income Deficiency (L5 - L2)	\$ 239,233	\$ 114,927
7	Gross Revenue Conversion Factor	1.56320	1.33325
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 373,969	\$ 153,226
9	Adjusted Test Year Revenue	\$ 576,266	\$ 580,814
10	Proposed Annual Revenue (L8 + L9)	\$ 950,235	\$ 734,040
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	64.90%	26.38%

References:

Column [A]: Company Schedules A-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-15

GROSS REVENUE CONVERSION FACTOR

LINE NO. DESCRIPTION	(A)	(B)	(C)	(D)
Calculation of Gross Revenue Conversion Factor:				
1 Revenue	100.0000%			
2 Uncollectible Factor (Line 11)	0.0000%			
3 Revenues (L1 - L2)	100.0000%			
4 Combined Federal and State Income Tax and Property Tax Rate (Line 23)	24.9950%			
5 Subtotal (L3 - L4)	75.0050%			
6 Revenue Conversion Factor (L1 / L5)	133.3245%			
Calculation of Uncollectible Factor:				
7 Unity	100.0000%			
8 Combined Federal and State Tax Rate (Line 17)	23.5763%			
9 One Minus Combined Income Tax Rate (L7 - L8)	76.4237%			
10 Uncollectible Rate	0.0000%			
11 Uncollectible Factor (L9 * L10)	0.0000%			
Calculation of Effective Tax Rate:				
12 Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13 Arizona State Income Tax Rate	6.9680%			
14 Federal Taxable Income (L12 - L13)	93.0320%			
15 Applicable Federal Income Tax Rate (Line 53)	17.8522%			
16 Effective Federal Income Tax Rate (L14 x L15)	16.6083%			
17 Combined Federal and State Income Tax Rate (L13 +L16)	23.5763%			
Calculation of Effective Property Tax Factor				
18 Unity	100.00%			
19 Combined Federal and State Income Tax Rate (L17)	23.58%			
20 One Minus Combined Income Tax Rate (L18-L19)	76.42%			
21 Property Tax Factor	1.86%			
22 Effective Property Tax Factor (L20*L21)	1.42%			
23 Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	25.00%			
24 Required Operating Income	\$ 57,308			
25 Adjusted Test Year Operating Income (Loss)	\$ (57,619)			
26 Required Increase in Operating Income (L24 - L25)	\$114,927			
27 Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 17,660			
28 Income Taxes on Test Year Revenue (Col. [A], L52)	\$ (17,795)			
29 Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 35,454			
30 Recommended Revenue Requirement	\$ 734,040			
31 Uncollectible Rate (Line 10)	\$ -			
32 Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33 Adjusted Test Year Uncollectible Expense	\$ -			
34 Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)	\$ -			
35 Property Tax with Recommended Revenue	\$ 35,216			
36 Property Tax on Test Year Revenue	\$ 32,371			
37 Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$ 2,845			
38 Total Required Increase in Revenue (L26 + L29 + L34 + L37)	\$153,226			
Calculation of Income Tax:				
39 Revenue	\$ 580,814	\$153,226	\$ 734,040	
40 Operating Expenses Excluding Income Taxes	\$ 656,228	\$ 2,845	\$ 659,073	
41 Synchronized Interest (L56)	\$ -		\$ -	
42 Arizona Taxable Income (L39 - L40 - L41)	\$ (75,414)		\$ 74,968	
43 Arizona State Income Tax Rate	6.9680%		6.9680%	
44 Arizona Income Tax (L42 x L43)	\$ (5,255)		\$ 5,224	
45 Federal Taxable Income (L42 - L44)	\$ (70,159)		\$ 69,744	
46 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 7,500	
47 Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (5,040)		\$ 4,936	
48 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51 Total Federal Income Tax	\$ (12,540)		\$ 12,436	
52 Combined Federal and State Income Tax (L44 + L51)	\$ (17,795)		\$ 17,660	
53 Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			17.8522%	
Calculation of Interest Synchronization:				
54 Rate Base	\$ 603,241			
55 Weighted Average Cost of Debt	0.00%			
56 Synchronized Interest (L45 X L46)	0			

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 5,261,065		\$ 4,747,512
2	Less: Accumulated Depreciation	1,835,897	1, 2, 3, 4	1,811,097
3	Net Plant in Service	<u>\$ 3,425,168</u>	5	<u>\$ 2,936,415</u>
<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	\$ 1,633,387	6	\$ 1,474,900
5	Service Line and Meter Advances	\$ -		\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 982,352	7	\$ 1,140,839
7	Less: Accumulated Amortization	260,433	8	387,970
8	Net CIAC	<u>\$ 721,919</u>		<u>\$ 752,869</u>
9	Total Advances and Contributions	\$ 2,355,306		\$ 2,227,769
10	Customer Deposits	\$ -	9	\$ 105,405
11	Accumulated Deferred Income Taxes	\$ -		\$ -
<u>ADD: Working Capital</u>				
12	Prepayments	\$ 3,404	10	\$ -
13	Inventory	\$ -		\$ -
14	Total Rate Base	<u>\$ 1,073,266</u>		<u>\$ 603,241</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	PLANT IN SERVICE	(A) COMPANY AS FILED	(B) Adj. No. 1 Capacity Plant Excess Ref. Sch CSB-5	(C) Adj. No. 2 Not Used and Useful Plant Ref. Sch CSB-6	(D) Adj. No. 3 Pressure Tank Reclassification Ref. Sch CSB-7	(E) Adj. No. 4 Allocated Vehicle Cost Ref. Sch CSB-8	(F) Adj. No. 5 Accumulated Depreciation Ref. Sch CSB-9	(G) Adj. No. 6 AIAC Ref. Sch CSB-10	(H) Adj. No. 7 CIAC Ref. Sch CSB-11	(I) Adj. No. 8 Amortization of CIAC Ref. Sch CSB-12	(J) Adj. No. 9 Customer Deposits Ref. Sch CSB-13	(K) Adj. No. 10 Working Capital Prepayments Ref. Sch CSB-14	STAFF AS ADJUSTED
1	No. - Plant Descriptions	\$ 700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 700
2	302 Franchises	\$ 62,540	\$ (36,000)	\$ (1,021)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,519
3	303 Land and Land Rights	\$ 22,078	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,078
4	304 Structures and Improvements	\$ 1,674,835	\$ (268,821)	\$ (17,028)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,368,986
5	307 Wells and Springs												
6	309 Supply Mains												
7	310 Power Generation Equipment												
8	311 Pumping Equipment												
9	320 Water Treatment Equipment												
10	330 Distribution Reservoirs and Standpipes	\$ 873,230	\$ (154,629)	\$ (15,804)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 702,797
11	330.2 Pressure Tanks	\$ 623,334	\$ -	\$ -	\$ (1,032)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 622,302
12	331 Transmission and Distribution Mains	\$ 1,160,777	\$ -	\$ -	\$ 1,032	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,160,777
13	333 Services	\$ 526,754	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 526,754
14	334 Meters and Meter Installations	\$ 113,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,643
15	335 Hydrants	\$ 105,490	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,490
16	336 Backflow Prevention Devices	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	339 Other Plant and Miscellaneous Equipment	\$ 2,902	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,902
18	340 Office Furniture and Equipment	\$ 8,901	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,901
19	340.1 Computers and Software	\$ 8,967	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,967
20	341 Transportation Equipment	\$ 72,235	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,235
21	343 Tools, Shop, and Garage Equipment	\$ 1,932	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,932
22	344 Laboratory Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23	345 Power Operated Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	346 Communication Equipment	\$ 1,494	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,494
25	347 Miscellaneous Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	348 Other Tangible Equipment	\$ 1,253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,253
27	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	Total Plant in Service	\$ 5,261,065	\$ (459,450)	\$ (33,853)	\$ -	\$ (20,250)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,747,512
29	Less: Accumulated Depreciation	\$ 1,835,897	\$ -	\$ -	\$ -	\$ -	\$ (24,800)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,811,097
30	Net Plant in Service	\$ 3,425,168	\$ (459,450)	\$ (33,853)	\$ -	\$ (20,250)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,936,415
31	LESS:												
32	Advances in Aid of Construction (AIAC)	\$ 1,633,387	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (158,487)	\$ -	\$ -	\$ -	\$ -	\$ 1,474,900
33	Meter Deposits - Service Line & Meter Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
34	Contributions in Aid of Construction (CIAC)	\$ 982,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 158,487	\$ -	\$ -	\$ -	\$ 1,140,839
35	Less: Accumulated Amortization of CIAC	\$ 260,433	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 387,970
36	Net CIAC	\$ 721,919	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 158,487	\$ (127,537)	\$ -	\$ -	\$ 752,869
37	Total Advances and Net Contributions	\$ 2,355,306	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (158,487)	\$ 158,487	\$ (127,537)	\$ -	\$ -	\$ 2,227,769
38	Customer Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
39	Accumulated Deferred Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40	ADD: Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,405	\$ -	\$ 105,405
41	Prepayments	\$ 3,404	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
42	Total Rate Base	\$ 1,073,266	\$ (459,450)	\$ (33,853)	\$ -	\$ (20,250)	\$ 24,800	\$ 158,487	\$ (158,487)	\$ 127,537	\$ (105,405)	\$ (3,404)	\$ 803,241

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct. No. 303 -Land and Land Rights	\$ 62,540	\$ (36,000)	\$ 26,540
2	Acct. No. 307 -Wells and Springs	\$ 1,674,835	\$ (268,821)	\$ 1,406,014
3	Acct. No. 311 - Pumping Equipment	\$ 873,230	\$ (154,629)	\$ 718,601
4	Total Acct. No. 380 -Treatment & Disposal Equip	\$ 2,610,605	\$ (459,450)	\$ 2,151,155
5				
6				
7	Year			
8	Added	Account No.	Account Description	Amount
9	2010	303	Land & Land Rights (Well No. 8)	\$ 36,000
10	2011	307	Wells & Springs (Well No. 8)	\$ 268,821
11	2011	311	Pumping Equipment (Well No. 8)	\$ 154,629
12			Total	\$ 459,450

Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - NOT USED AND USEFUL PLANT COSTS

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Acct No. 303 - Land & Land Rights	\$ 62,540		\$ (1,021)		\$ 61,519	
2	Acct No. 307 - Wells & Springs	\$ 1,674,835		\$ (17,028)		\$ 1,657,807	
3	Acct No. 311 - Pumping Equipment	\$ 873,230		\$ (15,804)		\$ 857,426	
4	Total	\$ 2,610,605		\$ (33,853)		\$ 2,576,752	
5							
6							
7							
8							
9							
10		Year Added	Account No.	Account Description		Amount	
11		2005	303	Land & Land Rights (Well No.1)		\$ 1,021	
12		2005	307	Wells & Springs (Well No. 1)		\$ 950	
13		2005	307	Wells & Springs (Well No. 1)		\$ 850	
14		2005	307	Wells & Springs (Well No. 2C)		\$ 350	
15		2005	307	Wells & Springs (Well No. 2C)		\$ 600	
16		2005	307	Wells & Springs (Well No. 2C)		\$ 1,032	
17		2005	307	Wells & Springs (Well No. 2C)		\$ 4,750	
18		2005	307	Wells & Springs (Well No. 2C)		\$ 4,178	
19		2005	307	Wells & Springs (Well No. 2C)		\$ 3,593	
20		2005	307	Wells & Springs (Well No. 2C)		\$ 725	
21		2005	311	Pumping Equip (Well No. 2C)		\$ 13,324	
22		2005	311	Pumping Equip (Well No. 2C)		\$ 2,480	
23						\$ 33,853	

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - PRESSURE TANK RECLASSIFICATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 307 - Wells & Springs	\$ 1,674,835	(1,032)	1,673,803
2	Acct No. 330.2 - Pressure Tanks.	-	1,032	1,032
3	Plant Total	\$ 1,674,835	\$ -	\$ 1,674,835

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - ALLOCATED VEHICLE COST

LINE NO.	DESCRIPTION			
		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 341 - Transportation Equipment	\$ 72,235	(20,250)	51,985
2				
3				
4				
5		Cost of Lexus SUV	\$ 27,000	
6		Percentage Allocated to Owners/Affiliates	75%	
7		Staff's Adjustment	20,250	

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - ACCUMULATED DEPRECIATION

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 1,835,897	\$ -	\$ 1,835,897
2	Excess Capacity Plant	\$ -	\$ (10,586)	\$ (10,586)
3	Not Used & Useful Plant	\$ -	\$ (10,670)	\$ (10,670)
4	Allocated Vehicle Costs	\$ -	\$ (3,544)	\$ (3,544)
5		\$ 1,835,897	\$ (24,800)	\$ 1,811,097

ACCUMULATED DEPRECIATION RELATED TO EXCESS CAPACITY PLANT COSTS

10	Reference	Year Placed				Number of	Depreciation	Accumulated
11	Schedule	In Service	Acct No.	Description	Plant Cost	Interim Years	Rate	Depreciation
12	CSB-5	2011	307	Wells & Springs (Well No. 8)	\$ 268,821	0.5	5.00%	\$6,720.53
13	CSB-5	2011	311	Pumping Equipment (Well No. 8)	\$ 154,629	0.5	5.00%	\$3,865.73
14					<u>\$ 423,450</u>			<u>\$10,586.25</u>

ACCUMULATED DEPRECIATION RELATED TO NOT USED AND USEFUL PLANT

18	Reference	Year Placed				Number of	Depreciation	Accumulated
19	Schedule	In Service	Acct No.	Description	Plant Cost	Interim Years	Rate	Depreciation
20	CSB-6	2005	307	Wells & Springs (Well No. 1)	\$ 950	6.5	5.00%	\$308.75
21	CSB-6	2005	307	Wells & Springs (Well No. 1)	\$ 850	6.5	5.00%	\$276.25
22	CSB-6	2005	307	Wells & Springs (Well No. 2C)	\$ 350	6.5	5.00%	\$113.75
23	CSB-6	2005	307	Wells & Springs (Well No. 2C)	\$ 600	6.5	5.00%	\$195.00
24	CSB-6	2005	307	Wells & Springs (Well No. 2C)	\$ 1,032	6.5	5.00%	\$335.39
25	CSB-6	2005	307	Wells & Springs (Well No. 2C)	\$ 4,750	6.5	5.00%	\$1,543.75
26	CSB-6	2005	307	Wells & Springs (Well No. 2C)	\$ 4,178	6.5	5.00%	\$1,357.85
27	CSB-6	2005	307	Wells & Springs (Well No. 2C)	\$ 3,593	6.5	5.00%	\$1,167.65
28	CSB-6	2005	307	Wells & Springs (Well No. 2C)	\$ 725	6.5	5.00%	\$235.63
29	CSB-6	2005	311	Pumping Equip (Well No. 2C)	\$ 13,324	6.5	5.00%	\$4,330.38
30	CSB-6	2005	311	Pumping Equip (Well No. 2C)	\$ 2,480	6.5	5.00%	\$806.00
31					\$ 32,832			\$10,670.40

ACCUMULATED DEPRECIATION RELATED TO VEHICLE ALLOCATION

34	Reference	Year Placed				Number of	Depreciation	Accumulated
35	Schedule	In Service	Acct No.	Description	Plant Cost	Interim Years	Rate	Depreciation
36	CSB-7	2008	341	Transportation Equipment	\$ 20,250	3.5	5.00%	\$3,543.75

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - ADVANCES IN AID OF CONSTRUCTION ("AIAC")

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	AIAC - Main Line Extension Contracts	\$ 1,633,387	\$ (158,487)	\$ 1,474,900
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

		Date	Amount
7	CSB 2-11	12/31/1997 Ending Balance	\$ 185,833
8	CSB 2-11	1998 Net AIAC Additions	\$ 22,360
9	CSB 2-11	1999 Net AIAC Additions	\$ (284)
10	CSB 2-11	2000 Net AIAC Additions	\$ 38,729
11	CSB 2-11	2001 Net AIAC Additions	\$ 37,055
12	Total AIAC That Was Not Fully Refunded After Ten Years		\$ 283,693
14	CSB 2-11	2002 Transfer to CIAC - Per Co.	\$ 31,060
15	CSB 2-11	2003 Transfer to CIAC - Per Co.	\$ 700
16	CSB 2-11	2008 Transfer to CIAC - Per Co.	\$ 68,430
17	CSB 2-11	2010 Transfer to CIAC - Per Co.	\$ 25,016
18	Total Transfers to CIAC - Per Company		\$ 125,206
20	Difference		\$ 158,487

References:

Column A: Company Schedule B-1
Column B: Testimony, CSB; Data Request Response CSB 2-11
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 7 -CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Gross CIAC	\$ 982,352	\$ 158,487	\$ 1,140,839

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB; Data Request Response CSB 2-11 and Sch CSB-10

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 8 - AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Amortization of CIAC	\$	260,433	\$127,537	\$	387,970	
2							
3							
4							
5	CALCULATION OF AMORTIZATION OF CIAL						
6	Reference			Year Transferred	Number of	Depreciation	Amortization of
7	Schedule		AIAC	To CIAC	Interim Years	Rate	CIAC
8	CSB-5 12/31/1997 Ending AIAC Balance	\$	185,833	2007	10	5.00%	\$92,916.50
9	CSB-5 1998 Net CIAC Additions	\$	22,360	2008	9	5.00%	\$10,062.00
10	CSB-5 1999 Net CIAC Additions	\$	(284)	2009	8	5.00%	(\$113.60)
11	CSB-5 2000 Net CIAC Additions	\$	38,729	2010	7	5.00%	\$13,555.15
12	CSB-5 2000 Net CIAC Additions	\$	37,055	2011	6	5.00%	\$11,116.50
13		\$	283,693				\$127,536.55

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Ray Water Company

Surrebuttal Schedule CSB-13

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RATE BASE ADJUSTMENT NO. 9 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits	\$ -	\$ 105,405	\$ 105,405
2				
3				Test Year
4				Customer Deposits
5				\$ 100,696
6				\$ 103,158
7				\$ 105,443
8				\$ 108,028
9				\$ 108,636
10				\$ 106,615
11				\$ 107,823
12				\$ 108,938
13				\$ 109,474
14				\$ 109,849
15				\$ 110,119
16				\$ 86,080
17				\$ 1,264,859
18			Divided by	12 Months
19				\$ 105,404.92

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB; Data Request Response CSB 2-12

Column C: Column [A] + Column [B]

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Surrebuttal Schedule CSB-14

RATE BASE ADJUSTMENT NO. 10 - WORKING CAPITAL, PREPAYMENTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	ADJUSTMENT	PER STAFF
1	Prepayments	\$ 3,404	\$ (3,404)	\$ -

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:							
1	Metered Water Sales	\$ 558,323			\$ 558,323	\$ 149,476	\$ 707,799
2	Water Sales - Unmetered	-	-		-		-
3	Other Operating Revenues	17,943	4,548	1	22,491	3,750	26,241
4	Total Revenues	\$ 576,266	\$ 4,548		\$ 580,814	\$ 153,226	\$ 734,040
EXPENSES:							
7	Salaries and Wages	\$ 226,744	\$ (30,259)	2	\$ 196,485	\$ -	\$ 196,485
8	Employee Pensions & Benefits	9,070	(4,520)	3	4,550	-	4,550
9	Purchased Power	106,874	(24,863)	4	82,011	-	82,011
10	Fuel for Power Production	-	-		-	-	-
11	Chemicals	-	-		-	-	-
12	Materials & Supplies	2,347	-		2,347	-	2,347
13	Office Supplies & Expense	22,190	-		22,190	-	22,190
14	Contractual Services - Billing	69,767	-		69,767	-	69,767
15	Contractual Services - Professional	17,001	-		17,001	-	17,001
16	Contractual Services - Testing	5,650	965	5	6,615	-	6,615
17	Contractual Services - Other	10,913	-		10,913	-	10,913
18	Equipment Rental	-	-		-	-	-
19	Rents	22,000	(2,200)	6	19,800	-	19,800
20	Transportation Expenses	13,316	(4,110)	7	9,206	-	9,206
21	Insurance - General Liability	10,590	-		10,590	-	10,590
22	Insurance - Health and Life	-	-		-	-	-
23	Reg. Comm. Exp.	-	-		-	-	-
24	Reg. Comm. Exp. - Rate Case	10,000	-		10,000	-	10,000
25	Miscellaneous Expense	9,662	-		9,662	-	9,662
26	Bad Debt Expense	295	-		295	-	295
27	Depreciation Expense	180,559	(50,959)	8	129,600	-	129,600
28	Taxes Other Than Income	18,646	(1,533)	9	17,113	-	17,113
29	Property Taxes	30,589	1,782	10	32,371	2,845	35,216
30	Income Taxes	(69,820)	52,025	11	(17,795)	35,454	17,660
31	Interest Expense - Customer Deposits	5,713	-		5,713		5,713
32	Total Operating Expenses	\$ 702,106	\$ (63,673)		\$ 638,433	\$ 38,299	\$ 676,732
33							
34	Operating Income (Loss)	\$ (125,840)	\$ 68,221		\$ (57,619)	\$ 111,177	\$ 57,308

References:

Column (A): Company Schedule C-1
Column (B): Schedule CSB-16
Column (C): Column (A) + Column (B)
Column (D): Schedules CSB-1 and CSB-2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Other Revenues	[C] ADJ #2 Salaries and Wages	[D] ADJ #3 Employee Pensions & Benefits	[E] ADJ #4 Purchased Power	[F] ADJ #5 Contractual Services	[G] ADJ #6 Rents	[H] Subtotal
	<u>REVENUES:</u>								
1	Metered Water Sales	\$ 558,323	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 558,323
2	Water Sales - Unmetered	-	-	-	-	-	-	-	-
3	Other Operating Revenues	17,943	-	-	-	-	-	-	17,943
4	Total Revenues	\$ 576,266	\$ 4,548	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 580,814
5	<u>OPERATING EXPENSES:</u>								
6	Salaries and Wages	\$ 226,744	-	(30,259)	-	-	-	-	\$ 196,485
7	Employee Pensions & Benefits	9,070	-	-	(4,520)	-	-	-	4,550
8	Purchased Power	106,874	-	-	-	(24,863)	-	-	82,011
9	Fuel for Power Production	-	-	-	-	-	-	-	-
10	Chemicals	-	-	-	-	-	-	-	-
11	Materials & Supplies	2,347	-	-	-	-	-	-	2,347
12	Office Supplies & Expense	22,190	-	-	-	-	-	-	22,190
13	Contractual Services - Billing	69,767	-	-	-	-	-	-	69,767
14	Contractual Services - Professional	17,001	-	-	-	-	-	-	17,001
15	Contractual Services - Testing	5,650	-	-	-	-	965	-	6,615
16	Contractual Services - Other	10,913	-	-	-	-	-	-	10,913
17	Equipment Rental	-	-	-	-	-	-	-	-
18	Rents	22,000	-	-	-	-	-	(2,200)	19,800
19	Transportation Expenses	13,316	-	-	-	-	-	-	13,316
20	Insurance - General Liability	10,590	-	-	-	-	-	-	10,590
21	Insurance - Health and Life	-	-	-	-	-	-	-	-
22	Reg. Comm. Exp.	-	-	-	-	-	-	-	-
23	Reg. Comm. Exp. - Rate Case	10,000	-	-	-	-	-	-	10,000
24	Miscellaneous Expense	9,662	-	-	-	-	-	-	9,662
25	Bad Debt Expense	295	-	-	-	-	-	-	295
26	Depreciation Expense	180,559	-	-	-	-	-	-	180,559
27	Taxes Other Than Income	18,646	-	-	-	-	-	-	18,646
28	Property Taxes	30,589	-	-	-	-	-	-	30,589
29	Income Taxes	(69,820)	-	-	-	-	-	-	(69,820)
30	Interest Expense - Customer Deposits	5,713	-	-	-	-	-	-	5,713
31	Total Operating Expenses	\$ 702,106	\$ -	\$ (30,259)	\$ (4,520)	\$ (24,863)	\$ 965	\$ (2,200)	\$ 641,228
32	Operating Income (Loss)	\$ (125,840)	\$ 4,548	\$ 30,259	\$ 4,520	\$ 24,863	\$ (965)	\$ 2,200	\$ (60,414)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	(I) ADJ #7 Transportation Expense Ref: Sch CSB-23	(J) ADJ #8 Depreciation Expense Ref: Sch CSB-24	(K) ADJ #9 Other Than Taxes Income Ref: Sch CSB-25	(L) ADJ #10 Property Tax Expense Ref: Sch CSB-26	(M) ADJ #11 Income Tax Expense Ref: Sch CSB-27	(N) STAFF ADJUSTED
1	REVENUES:						
2	Metered Water Sales	-	-	-	-	-	\$ 558,323
3	Water Sales - Unmetered	-	-	-	-	-	-
4	Other Operating Revenues	-	-	-	-	-	22,491
5	Total Revenues	-	-	-	-	-	\$ 580,814
6	OPERATING EXPENSES:						
7	Salaries and Wages	-	-	-	-	-	196,485
8	Employee Pensions & Benefits	-	-	-	-	-	4,550
9	Purchased Power	-	-	-	-	-	82,011
10	Fuel for Power Production	-	-	-	-	-	-
11	Chemicals	-	-	-	-	-	-
12	Materials & Supplies	-	-	-	-	-	2,347
13	Office Supplies & Expense	-	-	-	-	-	22,190
14	Contractual Services - Billing	-	-	-	-	-	69,767
15	Contractual Services - Professional	-	-	-	-	-	17,001
16	Contractual Services - Testing	-	-	-	-	-	6,615
17	Contractual Services - Other	-	-	-	-	-	10,913
18	Equipment Rental	-	-	-	-	-	-
19	Rents	-	-	-	-	-	19,800
20	Transportation Expenses	(4,110)	-	-	-	-	9,206
21	Insurance - General Liability	-	-	-	-	-	10,590
22	Insurance - Health and Life	-	-	-	-	-	-
23	Reg. Comm. Exp.	-	-	-	-	-	-
24	Reg. Comm. Exp. - Rate Case	-	-	-	-	-	10,000
25	Miscellaneous Expense	-	-	-	-	-	9,662
26	Bad Debt Expense	-	-	-	-	-	295
27	Depreciation Expense	-	(50,959)	-	-	-	129,600
28	Taxes Other Than Income	-	-	(1,533)	-	-	17,113
29	Property Taxes	-	-	-	1,782	-	32,371
30	Income Taxes	-	-	-	-	52,025	(17,795)
31	Interest Expense - Customer Deposits	-	-	-	-	-	5,713
32	Total Operating Expenses	\$ (4,110)	\$ (50,959)	\$ (1,533)	\$ 1,782	\$ 52,025	\$ 638,433
33			\$ 50,959	\$ 1,533	\$ (1,782)	\$ (52,025)	
34	Operating Income (Loss)	\$ 4,110					\$ (57,619)

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Surrebuttal Schedule CSB-17

OPERATING INCOME ADJUSTMENT NO. 1 - OTHER OPERATING REVENUE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Other Revenue	\$ 17,943	\$ 4,548	\$ 22,491

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Rhonda Rosenbaum, Vice President	\$ 80,000	\$ (8,000)	\$ 72,000
2	Joseph Rosenbaum, Vice President	\$ 80,000	\$ (8,926)	\$ 71,074
3	Doreen Mallis, Company President	\$ 20,000	\$ (13,333)	\$ 6,667
4	Dave Rader, Operations Manager	\$ 46,744	\$ -	\$ 46,744
5		\$ 226,744	\$ (30,259)	\$ 196,485

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB,
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - EMPLOYEE PENSIONS AND BENEFITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Employee Pensions & Benefits	\$ 9,070	\$ (4,520)	\$ 4,550
2				
3				
4				
5				
6				
7				
8		2009	\$ 4,585	Company Sch E-2
9		2010	\$ 9,064	Company Sch E-2
10		2011	\$ -	Company Sch E-2
11			\$ 13,649	
12		Divided by 3	3	Years
13			\$ 4,550	

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Company Data Request Responses to CSB 2-26

Column C: Column [A] + Column [B]

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Surrebuttal Schedule CSB-20

OPERATING INCOME ADJUSTMENT NO. 4 - PURCHASED POWER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	2011 Actual Purchased Power Expense	\$ 82,011	\$ -	\$ 82,011
2	Company Pro forma Adjustment	24,863	(24,863)	-
3	Total Purchased Power Expense	\$ 106,874	\$ (24,863)	\$ 82,011
4				
5				
6				

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Surrebuttal Schedule CSB-21

OPERATING INCOME ADJUSTMENT NO. 5 - CONTRACT SRVCS., WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services - Testing	\$ 5,650	\$ 965	\$ 6,615

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Surreabuttal Schedule CSB-22

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rents Expense	\$ 22,000	\$ (2,200)	\$ 19,800

Column A: Company Schedule C-1 & E-2
Column B: Testimony, CSB; Data Request CSB 2-16
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - TRANSPORTATION EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense	\$ 5,777	\$ -	\$ 5,777
2	Gasoline Expenses - Shell	3,543	(1,329)	2,214
3	Repair and Maintenance Expenses	3,996	(2,781)	1,215
		\$ 13,316	\$ (4,110)	\$ 9,206

Shell Gasoline Purchases		
1/14/2011	\$ 346.09	CSB 2-33
2/18/2011	\$ 227.51	CSB 2-33
3/18/2011	\$ 270.06	CSB 2-33
4/14/2011	\$ 198.02	CSB 2-33
5/18/2011	\$ 336.25	CSB 2-33
6/14/2011	\$ 226.66	CSB 2-33
7/16/2011	\$ 295.35	CSB 2-33
8/22/2011	\$ 97.00	CSB 2-33
9/17/2011	\$ 436.93	CSB 2-33
10/24/2011	\$ 370.97	CSB 2-33
11/15/2011	\$ 418.48	CSB 2-33
12/19/2011	\$ 319.79	CSB 2-33
	\$ 3,543	Total Shell Gas Purchases
Divided by 2	2	Vehicles (Toyota & Lexus)
	\$ 1,772	
	x 75%	Allocated to Owner/Affiliates
	\$ 1,329	Amount Disallowed
	\$ 3,543	Total Shell Gas Purchases
	\$ (1,329)	Amount Disallowed
	\$ 2,214	Staff as Adjusted

Repair & Maint Expenses		
Date	Description	
4/4/2011	Lexus SUV - 1 Tire	\$ 138 CSB 2-33
5/16/2011	4 Tires - Ford F250	\$ 893 CSB 2-33
7/5/2011	Lexus SUV Brake Pads/Maint	\$ 820 CSB 2-33
11/18/2011	Lexus SUV - Radiator	\$ 1,124 CSB 2-33
12/30/2011	Lexus SUV - 3 Tire	\$ 807 CSB 2-33
		\$ 3,644
Divided by 3	3	Years
		\$ 1,215 Normalized Costs

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB;
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	302 Franchises	\$ 700	\$ (700)	1 \$ -	0.00%	\$ -
2	303 Land and Land Rights	25,519	(26,540)	1 (1,021)	0.00%	-
3	304 Structures and Improvements	22,078	(13,781)	2 8,297	3.33%	276
4	306 Lake, River, and Other Intakes	-	-	-	2.50%	-
5	307 Wells and Springs	1,388,986	(181,238)	2 1,207,748	3.33%	40,218
6	309 Supply Mains	-	-	-	2.00%	-
7	310 Power Generation Equipment	-	-	-	5.00%	-
8	311 Pumping Equipment	702,797	-	702,797	12.50%	87,850
9	320 Water Treatment Equipment	-	-	-	3.33%	-
10	330 Distribution Reservoirs and Standpipes	622,302	(106,345)	2 515,957	2.22%	11,454
11	330.2 Pressure Tanks	1,032	-	1,032	5.00%	52
12	331 Transmission and Distribution Mains	1,160,777	(579,693)	2 581,084	2.00%	11,622
13	333 Services	526,754	-	526,754	3.33%	17,541
14	334 Meters and Meter Installations	113,643	(90,046)	2 23,597	8.33%	1,966
15	335 Hydrants	105,490	-	105,490	2.00%	2,110
16	336 Backflow Prevention Devices	-	-	-	6.67%	-
17	339 Other Plant and Miscellaneous Equipment	2,902	-	2,902	6.67%	194
18	340 Office Furniture and Equipment	8,901	-	8,901	6.67%	594
19	341 Transportation Equipment	51,985	-	51,985	20.00%	10,397
20	340.1 Computers and Software	8,967	-	8,967	20.00%	1,793
21	343 Tools, Shop, and Garage Equipment	1,932	-	1,932	5.00%	97
22	344 Laboratory Equipment	-	-	-	10.00%	-
23	345 Power Operated Equipment	-	-	-	5.00%	-
24	346 Communication Equipment	1,494	-	1,494	10.00%	149
25	347 Miscellaneous Equipment	-	-	-	10.00%	-
26	348 Other Tangible Equipment	1,253	(1,253)	2 -	10.00%	-
27	Total Plant	\$ 4,747,512	\$ (999,596)	\$ 3,747,916		\$ 186,311

31 Composite Depreciation Rate (Depr Exp / Depreciable Plant): 4.97%
 32 CIAC: \$ 1,140,839
 33 Amortization of CIAC (Line 31 x Line 32): \$ 56,712
 34
 35 Depreciation Expense Before Amortization of CIAC: \$ 186,311
 36 Less Amortization of CIAC: \$ 56,712
 37 Test Year Depreciation Expense - Staff: \$ 129,600
 38 Depreciation Expense - Company: 180,559
 39 **Staff's Total Adjustment: \$ (50,959)**

References:

- ¹ Nondepreciable Plant
² Fully Depreciated Plant

References:

Column [A]: Schedule CSB-4
 Column [B]: From Column [A]
 Column [C]: Column [A] - Column [B]
 Column [D]: Engineering Staff Report
 Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 9 - TAXES OTHER THAN INCOME

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Taxes Other Than Income	\$ 18,646	\$ (1,533)	\$ 17,113
2				
3				
4				
5				
6				
7	2011 Taxes Other Than Income	\$ 18,646		
8	Percentage Allocated to Affiliate Business/Owners		8.22% (\$226,744 / \$18,646)	
9	Staff's Adjustment		1,533	

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Ray Water Company
Docket No. W-01380A-12-0254
Test Year Ended December 31, 2011

Surrebuttal Schedule CSB-26

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 580,814	\$ 580,814
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	1,161,628	\$ 1,161,628
4	Staff Recommended Revenue, Per Schedule CSB-1	580,814	\$ 734,040
5	Subtotal (Line 4 + Line 5)	1,742,442	1,895,668
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	580,814	\$ 631,889
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,161,628	\$ 1,263,779
10	Plus: 10% of CWIP -	830	830
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	1,162,458	\$ 1,264,609
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	244,116	\$ 265,568
15	Composite Property Tax Rate	13.2606%	13.2606%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 32,371	\$ -
17	Company Proposed Property Tax	30,589	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 1,782	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 35,216
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 32,371
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 2,845
22	Increase to Property Tax Expense		\$ 2,845
23	Increase in Revenue Requirement		153,226
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.856484%

OPERATING INCOME ADJUSTMENT NO. 11 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
<u>Calculation of Income Tax:</u>		Test Year	
1	Revenue	\$ 580,814	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 656,228	
3	Less: Synchronized Interest (L17)	\$ -	
4	Arizona Taxable Income (L1- L2 - L3)	\$ (75,414)	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		\$ (5,255)
7	Federal Taxable Income (L4 - L6)	\$ (70,159)	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (5,040)	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		\$ (12,540)
14	Combined Federal and State Income Tax (L6 + L13)		\$ (17,795)
<u>Calculation of Interest Synchronization:</u>			
15	Rate Base	\$ 603,241	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	\$ -	
18	Income Tax - Per Staff	\$ (17,795)	
19	Income Tax - Per Company	\$ (69,820)	
20	Staff Adjustment	\$ 52,025	

Monthly Minimum Charge

Meter Size (All Classes):

	Present	Company Proposed	Staff Recommended
5/8 Inch x 3/4 Inch	\$ 11.15	\$ 15.00	\$ 15.00
3/4 Inch	25.00	25.00	26.00
1 Inch	39.00	39.00	40.00
1 1/2 Inch	62.00	75.00	62.00
2 Inch	110.00	120.00	110.00
3 Inch	125.00	240.00	125.00
4 Inch	165.00	375.00	165.00
6 Inch	330.00	750.00	330.00

Gallons Included In Monthly Minimum Charge

0 0 0

Commodity Charge - Per One Thousand Gallons

All Meter Sizes

1 gallon to 3,000 gallons	\$ 1.55	\$ 0.85	N/A
3,001 gallons to 7,000 gallons	\$ 1.55	\$ 2.25	N/A
7,001 gallons to 25,000 gallons	\$ 1.55	\$ 3.35	N/A
over 25,000 gallons	\$ 1.55	\$ 4.64	N/A
1 gallon to 2,000 gallons	\$ 1.55	N/A	\$ 0.50
2,001 gallons to 7,000 gallons	\$ 1.55	N/A	\$ 1.25
7,001 gallons to 25,000 gallons	\$ 1.55	N/A	\$ 2.00
over 25,000 gallons	\$ 1.55	N/A	\$ 3.24
Standpipe per 1,000 gallons	\$ 1.55	\$ 4.64	\$ 3.24

Miscellaneous Charges

	Present	Company Proposed	Staff Recommended
Establishment	\$ 25.00	\$ 30.00	\$ 30.00
Establishment (After Hours)	37.50	Discontinue	Discontinue
Reconnection (Delinquent)	25.00	35.00	35.00
Meter Test (If Correct)	30.00	35.00	30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
NSF Check	15.00	25.00	25.00
Deferred Payment, Per Month	***	***	1.50%
Meter Re-read (If Correct)	15.00	30.00	20.00
Late Payment Fee (Per Month)	***	2.00%	1.50%
After hours service charge (At the Customer's Request)	NT	25.00	25.00

* Per A. A. C. R-14-2-403 (B)

** Number of months off the system times the monthly minimum.

*** 1.50 percent per month of unpaid balance

NT = No Tariff

Service and Meter Installation Charges

	Total Present Charge	Company Proposed Service Line Charge	Company Proposed Meter Installation Charge*	Total Company Proposed Charge
5/8 x 3/4 Inch	\$ 550	\$ 445	\$ 155	\$ 600
3/4 Inch	\$ 550	\$ 445	\$ 255	\$ 700
1 Inch	\$ 650	\$ 495	\$ 315	\$ 810
1 1/2 Inch	\$ 875	\$ 550	\$ 525	\$ 1,075
2 Inch / Turbine	\$ 1,400	\$ 830	\$ 1,045	\$ 1,875
2 Inch / Compound	N/A	\$ 830	\$ 1,890	\$ 2,720
3 Inch / Turbine	\$ 1,900	\$ 1,045	\$ 1,670	\$ 2,715
3 Inch / Compound	N/A	\$ 1,165	\$ 2,545	\$ 3,710
4 Inch / Turbine	\$ 3,200	\$ 1,490	\$ 2,670	\$ 4,160
4 Inch / Compound	N/A	\$ 1,670	\$ 3,645	\$ 5,315
6 Inch / Turbine	\$ 5,800	\$ 2,210	\$ 5,025	\$ 7,235
6 Inch / Compound	N/A	\$ 2,330	\$ 6,920	\$ 9,250
Over 6-Inch	N/A	N/A	Actual Cost	Actual Cost

	Total Present Charge	Staff Recommended Service Line Charge	Staff Recommended Meter Installation Charge	Total Staff Recommended Charge
5/8 x 3/4 Inch	\$ 550	\$ 445	\$ 155	\$ 600
3/4 Inch	\$ 550	\$ 445	\$ 255	\$ 700
1 Inch	\$ 650	\$ 495	\$ 315	\$ 810
1 1/2 Inch	\$ 875	\$ 550	\$ 525	\$ 1,075
2 Inch / Turbine	\$ 1,400	\$ 830	\$ 1,045	\$ 1,875
2 Inch / Compound	N/A	\$ 830	\$ 1,890	\$ 2,720
3 Inch / Turbine	\$ 1,900	\$ 1,045	\$ 1,670	\$ 2,715
3 Inch / Compound	N/A	\$ 1,165	\$ 2,545	\$ 3,710
4 Inch / Turbine	\$ 3,200	\$ 1,490	\$ 2,670	\$ 4,160
4 Inch / Compound	N/A	\$ 1,670	\$ 3,645	\$ 5,315
6 Inch / Turbine	\$ 5,800	\$ 2,210	\$ 5,025	\$ 7,235
6 Inch / Compound	N/A	\$ 2,330	\$ 6,920	\$ 9,250
Over 6-Inch	N/A	Actual Cost	Actual Cost	Actual Cost

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 1,453

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	7,832	\$23.29	\$29.34	\$6.05	26.0%
Median Usage	6,467	\$21.17	\$26.55	\$5.38	25.4%
<u>Staff Proposed</u>					
Average Usage	7,832	\$23.29	\$23.91	\$0.62	2.7%
Median Usage	6,467	\$21.17	\$21.58	\$0.41	1.9%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$11.15	\$15.00	34.5%	\$15.00	34.5%
1,000	12.70	15.85	24.8%	15.50	22.0%
2,000	14.25	16.70	17.2%	16.00	12.3%
3,000	15.80	17.55	11.1%	17.25	9.2%
4,000	17.35	19.80	14.1%	18.50	6.6%
5,000	18.90	22.05	16.7%	19.75	4.5%
6,000	20.45	24.30	18.8%	21.00	2.7%
7,000	22.00	26.55	20.7%	22.25	1.1%
8,000	23.55	29.90	27.0%	24.25	3.0%
9,000	25.10	33.25	32.5%	26.25	4.6%
10,000	26.65	36.60	37.3%	28.25	6.0%
15,000	34.40	53.35	55.1%	38.25	11.2%
20,000	42.15	70.10	66.3%	48.25	14.5%
25,000	49.90	86.85	74.0%	58.25	16.7%
50,000	88.65	202.85	128.8%	144.75	63.3%
75,000	127.40	318.85	150.3%	231.25	81.5%
100,000	166.15	434.85	161.7%	317.75	91.2%
125,000	204.90	550.85	168.8%	404.25	97.3%
150,000	243.65	666.85	173.7%	490.75	101.4%
175,000	282.40	782.85	177.2%	577.25	104.4%
200,000	321.15	898.85	179.9%	663.75	106.7%

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER-SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF)
RAY WATER COMPANY,)
FOR AN INCREASE IN RATES)
)
)
_____)

DOCKET NO. W-01380A-12-0254

SURREBUTTAL TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 8, 2013

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Dorothy Hains who has previously filed testimony in this Ray Water Company (“Ray” or “Company”) rate proceeding?

A. Yes.

Q. What is the purpose of your Surrebuttal Testimony?

A. In my Surrebuttal Testimony I will respond to the Well #8 issues related to the Company’s Rebuttal Testimony.

II. WELL #8

Q. The Company argues that Well #8 provides capacity that is needed to meet the demands of the Company water system and contrary to Staff’s conclusion should not be treated as excess capacity. Do you agree?

A. No. In its Direct Testimony, Staff included Well #2d, Well #3, Well #4 and Well #7 in its capacity calculation. The Company now argues that Well #4 is not in service (See Page 4 of Ms. Festa’s Rebuttal Testimony).

Q. When Staff did its inspection in late August 2012, was Well #4 in service at that time?

A. No. However, during its inspection Staff was informed that Well #4 was only temporarily down for repairs and Staff observed a well driller on site pulling the well casing out of the well column to make the needed repairs. The Company’s Vice President and Certified

1 Operator, Ms. Rosebaum, informed Staff that Well #4 repairs would be completed soon
2 and that the well would be back in service in a few months and prior to the peak usage
3 season.

4
5 **Q. When Staff concluded that Well #8 was excess capacity in its Direct Testimony, did**
6 **Staff include the production from Well #4 in its calculation even though this well was**
7 **not in service at the time of Staff's inspection?**

8 A. Yes. While Well #4 was not in service during Staff's inspection, Staff observed that the
9 Well was being repaired and that the situation was temporary. The Company also
10 confirmed for Staff that the well would be back in service as soon as the needed repairs
11 were made. Staff therefore concluded that it would be appropriate to include Well #4 in
12 the capacity calculation.

13
14 **Q. Assuming that Well #4 is no longer in service, does the removal of Well #4 from**
15 **Staff's capacity calculation change Staff's recommendation regarding Well #8?**

16 A. No. Even assuming that Well #4 is no longer in service as the Company now contends,
17 Staff's recommendation regarding Well #8 remains unchanged because the Company could
18 utilize Well #6 for additional capacity. Accordingly, assuming Well #4 is no longer in
19 service, Staff's capacity calculations would include Wells #2d, #3, #6 and Well # 7. Well
20 #8 still constitutes excess capacity under either scenario.

21
22 **Q. Why does Staff believe it would be appropriate to include Well #6 in the capacity**
23 **calculation?**

24 A. During Staff's site inspection, Ms. Rosebaum told Staff that Well #6 was being used by the
25 Company as a backup well that would be available and used in the event another well was

1 off-line for repairs or during periods of peak usage to meet demand. This representation is
2 confirmed in the Company's Surrebuttal Testimony where the Company states that Well #6
3 is being utilized as "strictly a backup well."¹ Since Well #6 is in service as a backup well,
4 Staff believes it would be appropriate to include that well in the capacity calculation in the
5 event that Well #4 is no longer in service.

6
7 **Q. Does the Company have other wells to provide additional backup capacity?**

8 A. Yes. During Staff's site inspection, Ms. Rosebaum also informed Staff that Well #5 was
9 being used by the Company as a backup well that would be available and used in the event
10 another well was off-line for repairs or during periods of peak usage to meet demand. Staff
11 observed that Well #5 was powered on and was operational at the time of inspection.

12
13 **Q. Does your silence on any particular issue raised in the Company's rebuttal testimony**
14 **indicate that Staff agrees with the company's stated rebuttal position?**

15 A. No. Rather, where I do not respond, I am continuing to rely on my direct testimony.

16
17 **Q. Does this conclude your Surrebuttal Testimony?**

18 A. Yes, it does.

¹ Rebuttal Testimony of Kara Festa, p. 4.